TEXTILE AND CLOTHING BOARD

INQUIRY ON TEXTILES AND CLOTHING

INTERIM REPORT
PURSUANT TO SECTION 17(2)
OF THE TEXTILE AND CLOTHING BOARD ACT

Ottawa, Canada
June 28, 1985

Government of Canada
Gouvernement du Canada

Textile and Clothing Board
Commission du textile et du vêtement

Ottawa, Canada
K1A 0H5

June 28, 1985

The Honourable Sinclair Stevens, p.c., m.p.
Minister of Regional Industrial Expansion
Ottawa, Ontario
K1A 0H5

Mr. Minister,

Pursuant to the request you made to the Board at its meeting with you on May 16, 1985, and in accordance with Section 17(2) of the Textile and Clothing Board Act, the Board is presenting to you an interim report relative to its inquiry on textiles and clothing, undertaken at your request on December 21, 1984.

A final report of the inquiry will be presented within 180 days from the date of this interim report, in accordance with the requirements of the Textile and Clothing Board Act. The final report will contain the Board's recommendations for longer term actions in behalf of the textile and clothing industries.

Should you wish further information or explanations regarding this interim report, the Board will be pleased to supply them at your convenience.

Yours sincerely,

Otto E. Thur
Chairman

William L. Hawkins
Member

Jacques St-Laurent
Member

Canada

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1. INTRODUCTION

During the recent hearings held by the Textile and Clothing Board concerning the future of the special measures of protection currently in force, both the Canadian Textiles Institute and the Canadian Apparel Manufacturers Institute recommended the immediate application of emergency measures.

In its brief, the Canadian Textiles Institute recommended:

> "What is needed is not only a stop to further erosion of domestic producers' share of Canadian textile and clothing markets, but also a retrieval of market share lost to imports. This would require rollbacks from existing import levels.
>
> Such retrieval or restoration of the situation to what it would have been had the Board's 1980 recommendations been implemented, is a necessary precondition to a new policy for the longer term ...
>
> ... If such a sign is given for the short term; if the Board recommends continuation of special measures of protection in the long term; and if the Government accepts the recommendations and ensures they are carried out, the primary textile industry stands ready to do its part." (pp. xxiii-xxiv)

During the hearing, the Chairman of the Canadian Textiles Institute declared:

> "As we appear before you this April of 1985, the primary textile industry faces a crisis. It is not an exaggeration to say that the viability of the industry itself is in danger or that its substantial investments of the last decade and the jobs of its 80,000 employees are at risk." (p. 4)

In its brief, the Canadian Apparel Manufacturers Institute made the following statements:

> "In the immediate term there is a critical need for a watertight system of controls on imports from all disruptive sources. There is a genuine desire in the industry to move forward towards more positive adjustment. However, the situation of the industry has deteriorated to the point where it is necessary to re-trench for the industry to recover before further liberalization can be contemplated ... (p. 6)
>
> ... The Canadian apparel industry has been seriously injured by massive increases in disruptively priced imports. The failure of the 1981-1984 textile policy has eroded industry confidence and is forcing massive disinvestment. Without prompt action to regulate disruptive imports in an effective manner, this process will continue and accelerate." (p. 9)

The two institutes had made similar representations to the Minister of Regional Industrial Expansion.

At a meeting with the Board on May 16, 1985, the Minister of Regional Industrial Expansion expressed his wish to receive a preliminary report on the situation from the Board, pursuant to section 17 (2) of the Textile and Clothing Board Act.

2. THE PRESENT SITUATION

2.1 Deterioration of Apparent Markets

During the period 1982-1984, a period covered by the system of bilateral restraint agreements currently in force, the Canadian economy underwent a year of severe recession, followed by a moderate recovery in activity since the beginning of 1983.

The textile and clothing industries were directly hit by the recession, and subsequently there was little significant recovery: imports captured the major share of any increase in demand.

Table 1

APPARENT CANADIAN MARKET FOR CLOTHING

(Thousand Units)

	1981	1982	1983	1984
Domestic Shipments	368,632	330,875	330,049	320,748
Imports	165,489	166,402	202,453	237,277
Apparent Market	534,121	497,277	532,502	558,025
Share of Apparent Market held by:		- per cent -		
Domestic shipments	69	67	62	57
Imports	31	33	38	43

The preceding table demonstrates that total demand for clothing has been growing only marginally. Between 1981 and 1984, the increase did not exceed 5 per cent, or 1.6 per cent per year. In the same period, imports increased 43 per cent overall, or close to 13 per cent per year, while domestic shipments decreased 13 per cent overall, or 4 per cent per year.

This counter direction of imports and of domestic shipments is a basic cause of the difficulties of the industry.

The growth in imports and the decrease in domestic production of clothing result in depressed activities in the primary textile sectors which are the suppliers of raw materials to the clothing industry.

Table 2

APPARENT CANADIAN MARKETS
FOR YARNS AND FABRICS RELATED
(AT LEAST IN PART) TO THE CLOTHING INDUSTRY

	1981	1982	1983	1984
YARNS (thousand kilograms)				
Net domestic shipments	109,141	91,501	103,052	90,399
Imports	37,159	34,452	57,510	53,879
Apparent Canadian Market	146,300	125,953	160,562	144,278
Share of Apparent Canadian Market held by:		- per cent -		
Domestic shipments	75	73	64	63
Imports	25	27	36	37
FABRICS (thousand sq. meters)				
Net domestic shipments	346,675	264,557	304,132	288,910
Imports	327,564	259,567	312,873	379,475
Apparent Canadian Market	674,239	524,124	617,005	668,385
Share of apparent Canadian Market held by:		- per cent -		
Domestic shipments	51	50	49	43
Imports	49	50	51	57

The decrease in garment production in Canada has resulted in a decline in apparent markets for yarns and fabrics. The primary textile industry has been hurt not only because the apparent markets for its products have been declining, but also because it has been losing market share to imports.

As a result, between 1981 and 1984 the apparent market for yarns decreased 1.4 per cent. During the same period, imports increased by almost 45 per cent while domestic shipments went down 17 per cent.

Similarly, between 1981 and 1984 the apparent market for fabrics decreased 1.0 per cent; at the same time imports increased 16.0 per cent while domestic shipments dropped 17 per cent.

During the same period, the share of textile and clothing imports supplied by developed countries has been decreasing, while that of low-cost countries has been increasing.

Table 3

SHARES OF TEXTILE AND CLOTHING IMPORTS
SUPPLIED BY DEVELOPED COUNTRIES AND LOW COST COUNTRIES
(Per cent)

	Yarns		Fabrics		Clothing	
	Developed Countries	Low-cost Countries	Developed Countries	Low-cost Countries	Developed Countries	Low-cost Countries
1981	77	23	67	33	12	88
1984	59	41	60	40	10	90

As in the past, imports of yarns and fabrics are still coming primarily from developed countries. However, imports from low-cost countries have increased rapidly and have replaced part of the domestic shipments as well as part of the imports from developed countries.

However, the source of the major problem is in clothing. Imports of clothing are causing injury to the domestic industry, direct injury in the case of Canadian clothing manufacturers, and indirect injury to the primary textile industry as a result of diminished markets for yarns and fabrics.

It must be noted also that this injury is not caused by developed countries. Their share of total imports of clothing into Canada has been marginal for several years.

2.2 Causes of the Deterioration

The rapid increase in imports of clothing is an indication that the quantitative restraint system currently in place is not producing the expected results. In fact, quantitative restraints should have resulted in more or less predictable increases in imports. Actually, clothing imports remained at the same level from 1981 to 1982, increased 22 per cent from 1982 to 1983 and 17 per cent from 1983 to 1984. In the first five months of 1985, imports increased an additional 5 per cent compared to the same period in 1984. The latter figure is based on import permits issued as statistics on actual imports are not yet available.

Table 4

GROWTH OF CLOTHING IMPORTS FROM LOW-COST COUNTRIES

(Per Cent)

	1982/1981	1983/1982	1984/1983
Hong Kong, South Korea and Taiwan	- 0.7	20.6	- 9.2
People's Republic of China	12.4	39.8	36.0
Other restrained countries	- 4.2	7.9	80.1
Unrestrained or recently restrained countries	18.1	75.0	101.8
Total for low-cost countries	0.5	25.8	15.6

Note: Data based on import permits issued.

According to the above table, the restraint agreements with Hong Kong, South Korea and Taiwan give varying results. This is due in part to restraints applied subsequently to Taiwan, and to the flexibility provisions in the agreements.

The application of a bilateral agreement with China, one of the four large exporting countries, and its interpretation, have resulted in very high growth rates.

With regard to the other restraining countries, restraint utilization has been irregular.

Finally, growth rates for unrestrained or recently restrained countries have been surprisingly high. This is where, in their relations with these countries, the present system of bilateral agreements reveals its fundamental weaknesses: the negotiations must be conducted on a product-by-product and country-by-country basis, without regard for the cumulative market disruption resulting from import growth rates accorded to countries having signed bilateral agreements, and from the numerous new sources of products which appear year after year. Evidently, in comparison with the growth of the domestic market for clothing, the system leads to high growth rates for imports and to new agreements allowing for very high base levels.

Between 1981 and 1984, that is in three years, Canadian imports of clothing have registered an increase of close to 72 million units, or 43 per cent more than total imports in 1981. The responsibility for this increase is attributed as follows:

Table 5

INCREASE IN TOTAL CANADIAN IMPORTS OF CLOTHING BETWEEN 1981 AND 1984

Source	Number of units	Per cent
Developed countries	6,034,360	8.2
Hong Kong, South Korea and Taiwan	9,129,040	12.3
People's Republic of China	18,136,764	24.5
Other restrained countries (low-cost)	15,462,600	20.9
Unrestrained and recently restrained countries (low-cost)	25,188,354	34.1
Total	73,951,118	100.0

Note: Data based on import permits issued.

The apparently uncontrollable growth of imports of clothing, and to a lesser extent, of textiles, must be attributed to several factors.

Firstly, there was the overall variation in demand. After the 1982 recession, which resulted in weakened consumer demand and in generalized inventory liquidation at all levels of production and distribution, the recovery in 1983 and 1984 brought about not only an increase in consumer demand, but also a move to rebuild inventories.

Secondly, there was the appreciation of the Canadian dollar against the majority of foreigh currencies except the United States dollar. In line with the dollar appreciation, the prices of foreign textile and clothing products became more attractive.

Finally, there was an inherent tendency, with the bilateral agreement system currently in force, to search for new sources of products in countries where the exportation of these products was not restricted.

Nevertheless, with a policy of import restraints, it should be possible to exert a tighter control over the quantities imported.

2.3 Domestic Consequences of the Increase in Imports

The rapid growth of imports since 1982 has left little room for recovery in the textile and clothing industries: after the severe drop in production and employment in 1982, the recovery has been faltering.

Table 6

INDICES OF PRODUCTION (GDP) AND EMPLOYMENT
IN THE TEXTILE AND CLOTHING INDUSTRIES

1981 = 100

	Textile Sectors		Clothing Sectors		Knitting	
	GDP	Employment	GDP	Employment	GDP	Employment
1981	100.0	100.0	100.0	100.0	100.0	100.0
1982	80.5	86.8	92.7	95.3	88.0	89.7
1983	88.1	89.6	97.8	93.2	95.6	92.2
1984	85.8	89.8	101.8	86.6	96.0	90.2
1984 - 1st quarter	84.2	87.5	97.8	85.7	95.7	87.7
1985 - 1st quarter	90.2	90.3	94.4	84.4	-	88.7

The above data indicate that the recovery slowed down for textiles after 1983, and for clothing after 1984. Textile production showed some signs of renewed improvement in the first two months of 1985, but these signs disappeared in March.

Data on employment show that at the end of March 1985, the textile and clothing industries had lost some 24,000 employees since 1981, or a decrease of 13 per cent. While these losses in employment are related not only to imports but also to productivity improvements, nevertheless, the loss of about 15,000 jobs must be attributed to imports.

Production and employment are not the only activity factors affected by the growth in imports. There are several others, such as capacity utilization, new orders, selling prices and overall profitability.

Capacity utilization is not high. According to the information supplied by manufacturers during the Board's hearings, capacity utilization is somewhere between 60 and 70 per cent in both industries, based on normal operating practices.

New orders appear to have fallen off considerably in the spring of 1985. The retailers are placing their orders later, with the result that balanced utilization of production capacities is becoming more difficult.

Prices are generally depressed because of appreciation of the Canadian dollar and of the strong competition of imports against domestic products. The results of a Board survey of 209 major clothing producers show that the average price of a garment (f.o.b. plant) was $8.17 in 1984, the same as in 1981. From 1981 to 1984, the f.o.b. value of a unit of imported clothing increased 20 per cent from $4.51 to $5.43 for products from low-cost countries.

Since Canadian producers' prices have been unable to reflect cost increases, profitability in textiles and clothing has systematically decreased. Most witnesses at the Board's hearings were quite willing to discuss the financial situation of their firms, even if in most cases they were private family firms. According to them, the overall profitability of the textile and clothing industries has become marginal.

All these factors react together on the producers to create cumulative adverse conditions. An increasing number of producers, large, medium and small, are reevaluating their position, asking themselves questions about operations which bring little or no profit, and trying to acquire some experience in importing. In this respect the present period appears to be critical. Because of the cumulative effects of the various factors involved, numerous firms, large and small, are discouraged and could well be on the verge of making irrevocable decisions.

It must be emphasized that there has been no sudden deterioration of the overall situation in these two industries. It is the constant accumulation of negative factors since 1981 such as the 1982 recession, the faltering recovery, uncontrolled (from the industry's viewpoint) increases in imports, low levels of capacity utilization, increased costs of production in spite of efforts to modernize, the inability to raise prices because of pressures by the major retailers, loss of orders and delays in getting new ones.

3. WHAT CAN BE DONE TO RESOLVE THE PRESENT IMPASSE?

3.1 Alternative Solutions

If account is taken of the regulations presently in place governing international trade in textiles and clothing, possible options are not numerous.

First, a decision could be made to maintain the status quo. In other words, Canada would continue to honour the bilateral agreements it has negotiated, and try to negotiate, as needed, new agreements with the countries having just joined the long list of exporting countries to Canada, or to add new products to agreements already concluded, all this until new agreements could be negotiated in accordance with a new multifibre agreement, around the end of 1986.

Such a decision would open the doors to a serious reassesment of their positions by the textile and clothing industries. For more than a year now, these industries have been hoping for possible emergency action on the part of the Government. Should such action not materialize, the textile and clothing industries would act accordingly. In other words, unprofitable activities would be dropped, and decisions would be taken as to whether or not the remaining activities would be sufficient to justify a continuation of operations.

The cost of maintaining the status quo would probably manifest itself in a further increase in imports, probably around 5 or 6 per cent in 1985, and no doubt somewhat more in 1986. In fact, since the new bilateral agreements negotiated after 1986 should reflect preceding performances, and if MFA tradition is followed, this would incite exporting countries to utilize the restraints fully.

Since overall demand will not likely grow by 5 per cent or more per year, the growth of imports will lead once more to further loss of market share by domestic producers and the disappearance of some thousand of jobs.

A second alternative could be the one proposed by textile and clothing associations since April 1984, that is, the imposition of a global quota on clothing imports, with a significant reduction in the level of the quota. The level most often mentioned is 160 million units of clothing per year from low-cost countries, down from 215 million units in 1984. This represents a rollback of about one quarter.

Since a global quota administered in Canada is not possible within the framework of the MFA, it would therefore be necessary to invoke Article XIX of the GATT, which allows for the temporary utilization of safeguard measures in cases of serious injury which could not be repaired.

The imposition of a global quota on clothing imports at the proposed level would no doubt result in renewed activity in both the clothing and textile industries. Employment would go up, production capacity would be more fully utilized and profitability would be restored.

Regarding this alternative, the Board is of the opinion that it would be beneficial in the short term, but costly in the longer term. An increase in activity obtained in such a way would only be artificial and would rapidly disappear as soon as the application of Article XIX of the GATT would be terminated. As a result, after two or three years of imposition of Article XIX, Canada would once again have to face the same problems it is facing at present.

A major reduction in imports would cause serious disruptions of the clothing markets and would result in adverse consequences for the various groups involved in these markets.

Import programs being established some six to eight months before the selling season, letters of credit being opened several months in advance, there would be significant financial exposure and major disruptions in supplies. Traditional importers, major retailers and the numerous clothing producers who directly import items of clothing to complement their domestic production would be exposed to these risks.

Finally, several consumer groups would consider that a major reduction in imports would conflict with their interests and would impose excessive hardships on low income consumers.

A third possible solution would consist of invoking Article XIX of the GATT to freeze clothing imports at their present level. By taking as the base level the volume of imports either in 1984 or in the 12 months from July 1, 1984 to June 30, 1985, this measure would prevent any further disruption, but would not result in a significant disturbance of clothing markets.

Choosing this import level as a base would minimize the requests for compensation permissible under Article XIX. In 1984, total imports of clothing under restraint, both woven and knitted, amounted to 1.4 billions of dollars, and compensation calculated on one-quarter of this amount would be quite high.

A freeze on clothing imports at the present level would not lead to a retrieval of markets for clothing and for textiles. The Canadian producers would, nevertheless, know what to expect: for a certain period they would benefit from a degree of stability which would replace the present conditions of great uncertainty, even if a reduction in imports of clothing would not provide automatic assurance that the increased demand for Canadian-made clothing would bring about a proportional increase in demand for Canadian fabrics.

In the Board's opinion, the production facilities in the textile and clothing industries have gone through the adjustment required by the current import levels.

3.2 The Implications of a Recourse to Article XIX of the GATT

Recourse to Article XIX of the GATT would mean abrogation of the 21 bilateral agreements of Canada with countries exporting textiles and clothing. These agreements would be replaced by a global ceiling on imports of clothing from all sources, whether less developed, newly industrialized, state trading or developed. The Board is of the opinion that selective application of Article XIX which would discriminate among exporting countries, would be unacceptable internationally because it does not conform to the General Agreement on Tariffs and Trade.

Abrogation of existing bilateral agreements and the imposition of Article XIX on clothing imports would leave uncertain the status of textile imports. Canada could try to negotiate new bilateral agreements, this time for textiles only, on the basis of Article 3 of the Multifibre Agreement. If Canada did not succeed in negotiating such agreements in a timely manner, it could find itself in the position of having to impose Article XIX of the GATT for textile products also. Since some 60 percent of all the yarns and fabrics imported in Canada originate in industrialized countries, any irritation that these countries could feel should be alleviated by Canada's decision not to reduce its imports of textiles and clothing.

Application of Article XIX by Canada could result in some problems for the United States administration. In fact, the administration is against a proposed bill for which the support of senators and house representatives is being sought, a bill which would impose a 20 percent reduction on all imports of textiles and clothing, except those coming from the European Economic Community and Canada. If Canada were to take the position that it is not aiming to reduce its imports but that it must take safeguard action to maintain a viable level of production in Canada (in certain categories of clothing, imports already account for more than 50, 60 or 70 percent of the domestic market), the United States administration would understand the difference between the Canadian decision and the bill which it is opposing.

Recourse to article XIX of the GATT for a given period would also facilitate solution of the dilemma of allocating restraints to the various exporting countries. Under the Multifibre Agreement, restraints must reflect the historial performance of exporting countries. In other words, a country having obtained substantial restraint quantities from Canada in the past would have the assurance that in the renegotiation of bilateral agreements it would again obtain substantial restraint quantities. On the other hand, a country having only recently started to export clothing would be allocated either a marginal restraint to prevent further disruption of a Canadian market already saturated with imports, or a generous restraint which would only result in additional market disruption. In fact, the exporting countries recently entering the market are those which offer products at the most advantageous prices, and are also those who need to export most.

Under a global quota system, the individual quotas would be allocated to Canadian importers, whether they are clothing manufacturers, traditional importers or retailers. They would be free to import from the country of their choice, according to their clients' preferences. A global quota could therefore result in a significant modification in imports according to their country of origin. If, at a later date, Canada decides to rejoin the Multifibre Agreement regime, it could do so in a manner more in line with importers' preferences. As a result, there would be a redistribution of restraint quantities to the advantage of new exporting countries, which redistribution, within the provisions of the Multifibre Agreement, is difficult to achieve to any significant extent.

4. CONCLUSIONS

The rapid increase in imports of clothing in Canada in the last two years or more has resulted in a crisis situation: numerous firms are reducing or stopping production, others are turning to importing, and still more are only surviving on the earnings accumulated in previous years.

With ever decreasing outlets for their products, textile firms are forced to reevaluate their position. Some of them, particularly the more important ones, could be brought to take irreversible decisions in coming months which would result in partial or complete plant closings. Such decisions would inevitably lead to increased unemployment in regions where it is already very high, and where the impact of the industry in small communities is extremely significant.

The bilateral quantitative restraint system currently in force has done little to prevent deterioration of the situation. The negotiating system adopted by Canada is not flexible enough to react properly to changes in domestic market conditions. It is also experiencing difficulties in the timely application of controls on imports from new sources. Consequently, it fails to provide sufficient stability to the textile and clothing industries to allow them to plan effectively for their future.

It must be noted also that these industries, in spite of the difficult conditions they have to contend with since 1982, have made major efforts at modernizing by investing in high performance, substantially automated production equipment. Most Canadian textile and clothing firms compare favourably, in terms of technology, with the most modern firms in other developed countries.

The present crisis is the result of a constant accumulation of unfavourable factors and government hesitations in the last two years. The textile and clothing industries have lost their sense of direction, and discouragement and resignation now prevail.

It is regrettable that some of the recommendations which the Board presented in 1980 have not been implemented. The Board had recommended a longer term approach covering the period from the beginning of 1982 to the end of 1990. In addition, the Board had also recommended a coherent approach to the negotiation of bilateral agreements, setting acceptable growth rates for imports and ensuring equitable treatment of imports from new exporting countries. If these recommendations had been implemented the total volume of imports of clothing in 1984 would have been between 170 and 180 million units, instead of 215 millions. With the lower volume of imports the present situation of crisis would not have come about.

5. RECOMMENDATIONS

In order to prevent decisions leading to reductions in activity in the textile and clothing industries and the snowballing effects which such decisions could provoke, the Textile and Clothing Board recommends:

- that a global quota be imposed on imports of all types of clothing, including leather garments, hosiery and work gloves, to ensure that, in 1985 and thereafter, imports will not exceed the quantities imported either during the year 1984, or during the 12 months from July 1, 1984 to June 30, 1985;

- that individual quotas within the global quota be established for each category of products in question, such that these individual quotas reflect the quantities of clothing imported during one or the other period mentioned above;

- that this new system of global quota remain in force until December 31, 1987;

- that the global quota remain unchanged for the whole duration of its application, with no allowance for growth of the import quotas, in order that domestic industries benefit from a period of recuperation.

Canada cannot and must not maintain this global quota regime indefinitely. The final report of the Board, due to be presented on October 31, 1985, will contain specific recommendations regarding a new phase of import control. These recommendations will aim at providing the textile and clothing industries a greater measure of stability than in the past, while maintaining a healthy level of competition between domestic and imported products.